

February 15, 2008

Mr. Jim Sylph  
Executive Director, Professional Standards  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 505, External Confirmations, (the “proposed standard”), as well as Conforming Amendments to Proposed ISA 500, Considering the Relevance and Reliability of Audit Evidence, (the “proposed conforming amendments”), as developed by the International Auditing and Assurance Standards Board (IAASB).

Throughout this comment letter, within our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

**RESPONSES TO SPECIFIC QUESTIONS:**

Below are our views on the specific areas identified by the IAASB in the exposure draft of the proposed standard.

1. The proposal that proposed ISA 505 should not mandate the use of external confirmation requests in any particular circumstance or in response to any particular risk of material misstatement.

*We agree with the proposal that ISA 505 should not mandate the use of external confirmation requests.*

2. The proposal that the scope of proposed ISA 505 be directed at the effective performance of external confirmation procedures when the auditor determines that such procedures are an appropriate response to an assessed risk of material misstatement, and that accordingly the ISA should not require that the auditor consider when, or under what circumstances, it may be appropriate to use external confirmation procedures when performing an audit of financial statements.

If a respondent believes that the ISA should require that the auditor consider whether to use external confirmation procedures, please explain why and indicate at what level (e.g., financial statement assertion) such consideration should be made, and whether and how the auditor should document such consideration.

*We agree with the proposal that ISA 505 not require that the auditor consider when, or under what circumstances, it may be appropriate to use external confirmation procedures.*

3. Whether proposed ISA 505 appropriately limits the extent to which auditors may use negative confirmation requests.

*From a technical auditing perspective, we do not believe that the use of negative confirmations alone provide significant appropriate audit evidence. However, from a practical standpoint, we are unsure of the operational impact of requiring that negative confirmation always be performed with other substantive procedures on certain engagements (e.g., within the financial institutions industry or when testing other accounts with many small balances). Therefore, we don't support 'banning' negative confirmations in the proposed standard, but instead agree that paragraph 14 of the proposed standard appropriately limits the extent to which auditors may use negative confirmation requests.*

### **RESPONSES TO THE APPLICATION OF THE CLARITY DRAFTING CONVENTIONS:**

Are the objectives for the proposed ISA appropriate, and are the proposed requirements appropriate responses to those objectives.

*Yes, we believe the objective in the proposed standard is appropriate and that the proposed requirements are appropriate responses to those objectives.*

### **COMMENTS BY PARAGRAPH:**

- **Paragraph 7(d): Appropriate and accurate addresses**

Bullet (d) of paragraph 7 includes a requirement to determine that confirmation requests are appropriately addressed. Paragraph A11 states that an example of a procedure for following up on non-responses would be to verify the accuracy of the original address.

We believe that additional guidance should be added to the application material to illustrate how to comply with the requirement in paragraph 7(d), especially considering that paragraph A11 only has verification of the accuracy of the original address as an *example* procedure performed *at a later stage* in the confirmation process. For example, it would be helpful to clarify in the application material whether the intent of the

requirement in paragraph 7(d) is to perform some procedure to verify each address of each confirmation request prior to sending out the request.

Additionally, for further clarification, we recommend the following editorial change to paragraph 7(d):

7(d) ~~Communicating~~ **Managing communications** with the confirming party, including determining that requests are appropriately addressed and include return information for responses to be sent directly to the auditor, and sending the requests to the confirming party; and

- **Paragraph 15: Overall evaluation vs. individual evaluation**

We believe that application material is needed to clarify that paragraph 15 relates to the auditor's overall evaluation of the relevance and reliability of external confirmations as an audit procedure. This would differentiate the requirement in paragraph 15 from the requirements in paragraphs 10-13, in which the auditor evaluates the reliability and relevance at the individual confirmation response level.

- **Paragraph A5: Editorial change**

We believe that paragraph A5 should specify that the factors listed in the bulleted points are outside of the control of the auditor. Accordingly, we recommend the following editorial change:

A5. Factors, **outside the influence of the auditor**, that may assist the auditor in determining whether external confirmation procedures are an appropriate response to an assessed risk of material misstatement include:

- **Paragraph A23: Unnecessary application material**

We believe that paragraph A23 does not provide any further guidance than is already contained in paragraph 12. Accordingly, we recommend that it be deleted.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

